

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of the Implementation of an
Energy Conservation Plan for Otter Tail
Power Company

ISSUE DATE: April 4, 1988

DOCKET NO. E-017/M-87-235

ORDER APPROVING MODIFICATION OF
CONSERVATION IMPROVEMENT
PROGRAM AND ACCEPTING
COMPLIANCE FILING

PROCEDURAL HISTORY

On October 13, 1987 the Commission issued its ORDER APPROVING OTTER TAIL POWER COMPANY'S CONSERVATION IMPROVEMENT PROGRAM AND REQUIRING INFORMATIONAL FILINGS in the above-captioned docket. That Order approved Otter Tail Power Company's (Otter Tail or the Company) proposed Conservation Improvement Program (CIP), with minor modifications. It also required supplemental filings demonstrating compliance with the terms of the Order.

On January 26, 1988 the Company made a compliance filing under the Order and filed a proposal to revise its Conservation Improvement Plan. The Company proposed to discontinue four projects, to add three new ones, and to expand one existing project.

The Department of Public Service examined the compliance filing and the proposed revisions to the Company's CIP and recommended Commission approval of both.

FINDINGS AND CONCLUSIONS

The Company's Compliance Filing

The Commission finds that the Company's compliance filing is adequate and demonstrates compliance with the terms of the October 13 Order. It will be accepted and approved.

Proposed Revisions to the Company's Conservation Improvement Program

The Company proposed to discontinue four projects, to add three new ones, and to expand one existing project.

Projects to be Discontinued

The projects the Company proposed to discontinue are its Water Heater Jacket/Replacement project, the Walk-Through Audit, the Individualized Energy Consultation, and the Water Heater Rebate project. The first three had participation levels significantly lower than those projected. The Water Heater Rebate project had not yet been implemented; the Company proposed replacing it with a refrigerator-freezer rebate program it thought would be more effective.

The Commission agrees that the low customer participation levels in the first three programs justify discontinuing them. The Commission finds that the Company made appropriate good faith efforts to market these programs; they simply did not have the customer appeal anticipated. The Company is entirely correct in seeking to replace them with programs which will have higher participation levels.

The Commission also agrees that it is appropriate to replace the Water Heater Rebate Project with a refrigerator-freezer rebate program. This proposal was made in consultation with DPS and Commission staff, who all agreed the new project appears to offer more potential for energy savings than the old one. Since Otter Tail is an electric utility, a program directed at refrigerator-freezers, which are almost always electric, appears more likely to effect savings than one directed at water heaters, which are frequently gas appliances. Furthermore, a refrigerator-freezer rebate program does not present the risk of customers switching fuel sources to qualify, a possibility with the water heater project.

The Commission will therefore approve discontinuance of the four projects the Company proposed to end.

Projects to Be Added or Expanded

House Therapy Weatherization Project

This is to be a joint project with the United States Department of Energy (DOE). What the Company proposed is to match DOE expenditures under the Low Income Weatherization Program to weatherize homes of electric space heating customers in its service area. This would substantially increase the number of people the DOE program could serve.

Historically, the Low Income Weatherization Program has provided significant, cost-effective weatherization services in an efficient manner. The proposed partnership between DOE and the

Company would allow more people to benefit from the DOE program and would allow greater participation by those of Otter Tail's customers most in need of conservation assistance, electric space heating customers. Since program eligibility is limited to low income people, the project would further the statutory goal of giving special consideration to the needs of renters and low income families and individuals. Minn. Stat. § 216B.241, subd. 2.

Because this project appears to offer significant energy savings, appears to fall within accepted cost-effectiveness norms, and targets low income families and individuals, a group for whom the Commission has special concern, the Commission will approve it.

The Commission does, however, have two concerns regarding the administration of this project which must be addressed prior to its inclusion in any future CIP. First, the utility must demonstrate that procedures are in place to ensure that landlords whose tenants receive weatherization services execute contracts granting rent freezes of an appropriate length and that those contracts are enforced. The Commission understands that this is an eligibility requirement of the DOE program, but responses to Commission inquiries about its enforcement have not been reassuring.

Second, the Commission will require a detailed itemization and explanation of the project's administrative costs, both for the total project and for the utility. The Commission will require a showing that all costs are reasonable and appropriate and that the utility's portion of the project's total administrative costs is equitable. Although the utility attempted to alleviate Commission concerns in this regard by absorbing some of this year's administrative costs, the Commission is aware that such costs are ultimately borne by the ratepayers. Absorption, then, is not an adequate long term resolution of these issues.

Senior Citizen Workshop/Audit

For this project the Company proposed to conduct six free conservation workshops for senior citizens. Workshop speakers would provide basic conservation information and would offer free home energy audits to attendees. Audited households would also receive a \$50 credit toward weatherization materials if their primary heating source was electric.

The Commission will approve this project because it potentially offers significant energy savings to participants and meets prevailing standards of cost-effectiveness.

TAKE 5 Refrigerator/Freezer Combination Rebate Project

This is an innovative project in which the Company would provide customers with a 5% rebate of the purchase price of any refrigerator-freezer with an energy efficiency rating in the top 15% for all refrigerator-freezers. The Company would also make a \$20 incentive payment to the dealer who sold the appliance. Both the dealer and the purchaser would complete a questionnaire designed to elicit information on dealer and consumer attitudes toward energy efficient appliances.

Both the Company and the DPS agreed that this project is not cost-effective for the utility and non-participants in the traditional sense; amounts expended will not be recouped through energy savings in the near term. DPS nevertheless recommended approval on a trial basis, stating that the project could yield valuable information on dealer and consumer perceptions, attitudes, and buying habits in regard to energy efficiency. It could also educate and sensitize consumers and dealers on energy efficiency issues, resulting in indirect energy savings not measurable by conventional cost-effectiveness tests.

The Commission agrees with the DPS and the Company and will approve the project as a pilot project. Rebates to promote the selection of energy efficient appliances deserve careful consideration as potentially effective conservation techniques, and this project offers a well designed and manageable starting point for such consideration. The project also offers an opportunity to collect data on the role of energy efficiency in determining consumer preferences. Such data could be useful in any number of future conservation contexts. Furthermore, it is likely that consumers who participate in this project will regard energy efficiency more highly in making future appliance selections, resulting in indirect energy savings. For these reasons, the Commission will approve the project despite the fact that traditional cost-effectiveness tests do not show a clear positive relationship between costs and energy savings.

The Commission will re-examine all aspects of the project, including its cost-effectiveness, upon its completion. Should the Company propose to continue the project, it will be required to work with the DPS in evaluating and improving its cost-effectiveness.

Community Energy Council Project

The Company proposed to revise and expand this project, which was approved in the October 13 Order. The project is a cooperative venture with the Community Energy Councils (CEC's) in the Company's service area. These councils administer grants and programs originating from the Energy Division of the Department of Public Service. Originally, the Company proposed to train energy auditors, provide "Energy Buck" credits toward the purchase of weatherization materials, install water heater jackets, and install residential demand control devices.

Otter Tail reported underutilization of all services except the auditor training. The Company proposed to revise the project by eliminating all the services discussed above. Instead, the Company would pay the costs of residential and small commercial audits conducted by the CEC's in its service area and inform its customers by mail of the availability of these free audits. Any funds remaining in the budget, which would be expanded, would be used to purchase weatherization materials and services for audited households which could not otherwise afford them.

The Commission agrees with the Company that it is reasonable to replace these underused projects, even, as in this case, with projects serving fewer people than the original projects would ideally have served. Furthermore, the revised project's provision of free weatherization services to low income households furthers an important Commission and legislative goal: giving special consideration to the needs of renters and low income families and individuals. Minn. Stat. § 216B.241, subd. 2. Finally, the project appears to meet prevailing cost-effectiveness standards. The Commission will therefore approve the proposed revisions to the Community Energy Council project.

ORDER

1. The Commission accepts and approves the Company's compliance filing of January 26, 1988.
2. The Commission approves the Company's proposed revisions to its Conservation Improvement Program, as described above, at the budget amounts shown in Attachment I.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)